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Subject:	[External] Energy industry wary of intensifying trade showdown

Energy industry wary of intensifying trade showdown

By Ben Lefebvre and Eric Wolff

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President Donald Trump's steel tariffs and the possibility of an ensuing trade war with China are rattling nerves in the oil industry.

The 25 percent tax on imported steel has the potential to raise the costs for building new pipelines, LNG export plants and oil rigs, among other things, with most of the increase getting passed on to consumers, industry analysts said. Meanwhile, the potential for blowback in a global trade war is killing the buzz much of the industry felt amid the recent corporate tax rate cut and the recovery in oil prices.

The U.S. imported 5 million metric tons of pipe and tube steel in 2017, according to an analysis by consulting firm ClearView Energy Partners. Even with the temporary exclusions that the Trump administration placed on imports from Mexico, Canada and other allies, the tariffs would still apply to about 40 percent of that amount, the analysis showed.

"Slowing down commerce and slowing down trade are terrible ideas," ClearView Managing Director Kevin Book said in an interview. "Energy trade is a tightly strung violin, and slack strings don't sound so good. A trade war is bad for energy — there's no way around it."

Trump's proclamation exempts a total of six countries and the European Union from the tariffs until April 30, unless the president decides before then to extend the exemption. But even if the tariffs aren't put in place, Trump may also put a limit on how much foreign steel the U.S. may import.

Steel-intensive pipeline and LNG projects would suffer the most, industry sources said. New LNG projects could suffer double, as their cost of construction goes up and a trade war with China takes away the country many had thought would be a major buyer of U.S. gas.

"A lot of alarm bells are going off right now for U.S. LNG producers trying to lock in long-term contracts with Chinese buyers," said Charles Dewhurst, leader of accounting and consulting firm BDO's global natural resources practice. "The current state of trade relations certainly raises the question of whether China will turn to Qatar or Australia to supply its growing LNG demand."

The blowback an international trade war would bring would be almost as bad as the direct tax on steel, sources said. China has already proposed its own tariffs on imports of U.S. agricultural goods, which could damage demand for diesel, gasoline and chemical fertilizer and pesticides used for farming.

China also reserved the right to place further tariffs on U.S. products in the future, a possibility that could roil markets and industry further, noted Jason Schenker, president of Prestige Economics analysis firm.

"The problem with tariffs is that they are like cockroaches: there is never just one," Schenker wrote in an analyst note.

China's proposed tariffs include ethanol, but it would have less of an immediate impact because the country already drove ethanol imports close to zero last year with a 30 percent tariff, according to U.S. census data provided by the Renewable Fuels Association, an ethanol trade group.

Still, ethanol producers are worried that a new tariff would lock the door against winning market share back. U.S. producers exported about 8 percent of their 15.8 billion gallons last year, but exports in general, and China in particular, are considered an important source of growth for the industry.

"China has and continues to be an important market for ethanol and for distiller grains, and we want to remove any of these unnecessary barriers as soon as possible," Emily Skor, CEO of Growth Energy, another ethanol producers trade group, said in a statement. "These actions could undercut our potential to increase exports to China following the country's stated goal to move to a 10 percent ethanol blend by 2020, and would be a major barrier to increased trade."

China could be a huge market. In 2016, with a 5 percent tariff, the country was the third-largest ethanol importer behind Brazil and Canada. After almost no imports in 2017, shipments resumed in December, and China made up 13 percent of that month's U.S. exports. This week's proposed retaliatory tariff by China, which would raise the existing tariff to 45 percent, could smother the market's nascent resurgence.

"China's response was entirely predictable, given recent actions by our administration to implement new tariffs," RFA CEO Bob Dinneen said in a statement. "It is my fervent hope that the White House now fully understands the impact these actions will have on America's ethanol industry and farmers."

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